



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
REGION III
1650 Arch Street
Philadelphia, Pennsylvania 19103-2029

JUL 19 2016

Mr. Patrick M. Murphy
Environmental Engineering Division Director
West Virginia Department of Health and Human Resources
350 Capitol Street, Room 313
Charleston, West Virginia 25301-3713

RE: FY 2015 DWTRF Program Evaluation Report

Dear Mr. Murphy:

This Program Evaluation Report (PER) is the U.S. Environmental Protection Agency's (EPA) assessment on the West Virginia Department of Health and Human Resources (DHHR), Bureau for Public Health (BPH), Drinking Water Treatment Revolving Fund (DWTRF or DWSRF) program. The PER summarizes our evaluation and identifies strengths and opportunities for improvement in the DWTRF program. The review covered the period July 1, 2014 through June 30, 2015. EPA conducted its on-site review from May 24 to 25, 2016.

No action items for BPH or EPA were identified in the FY 2015 review.

Purpose and Scope

The FY 2015 annual review of BPH's DWTRF program was conducted in accordance with EPA's Annual Review Guidance and Region III's Annual Review Plan. The annual review process included EPA's consideration of BPH's Annual Report, completion of the Project File Review Checklist, Annual Review Checklist, and issuance of this PER.

EPA conducts separate reviews of the technical aspects of the DWTRF activities undertaken with the Small Systems Technical Assistance, State Program Management, and Local Assistance and Other State Programs set-aside funds in conjunction with its review of the State's Public Water System Supervision (PWSS) Program. The current DWTRF annual review focused on the Loan Assistance activities, the Administration set-aside and financial aspects associated to set-aside activities.

The purpose of the annual review was to assess the BPH's management of the program, including:

- Performance in achieving goals and objectives identified in the Intended Use Plans (IUPs) and Annual Report;
- Compliance with grant agreements, operating agreement, and regulations;
- Financial status and performance of the Fund and set-aside accounts;



Project File Review

EPA reviewed BPH's files for the following projects:

Grant/ Loan Reviewed	Date	Grant/ Loan Amount
City of Welch	June 2015	\$3,540,088
Page-Kincaid PSD	January 2015	\$1,350,000
Total		\$4,890,088

The project files were fully documented. Each file contained a full financial, technical and managerial review, periodic inspection reports, and state environmental reviews. A detailed financial capability and credit analysis is performed on all new loans and this documentation was included in the file. EPA commends BPH for its efforts in the environmental review process and project management.

Program Management

BPH continues to do well in managing the DWTRF program and meeting all State Revolving Fund (SRF) requirements. BPH utilizes in-kind services to assist staff in ensuring SRF projects are meeting compliance requirements. It is essential that the program continue to be adequately staffed and a minimum of two to three staff members attend national trainings such as the Council of Infrastructure and Financing Authorities (CIFA), All States and other SRF related conferences. These training opportunities are vital to BPH staying informed of the numerous changes and continuing developments in the national programs. BPH actively participates in all training opportunities.

Grant Compliance Requirements

The following are requirements in the DWSRF regulations, grant agreements, and operating agreement. Upon review, it is determined that the State met all compliance requirements for the review period.

- Annual Report
- Drinking Water National Information Management Systems database
- DWSRF Benefits Reporting (PBR) database
- Additional Subsidization
- Payments
- State Match
- Program management set-aside one to one match.
- Binding Commitments
- Federal Financial Reports
- Federal Financial Accountability and Transparency Act
- Administrative Costs
- Davis Bacon
- Sustainability Policy
- Operating Agreement
- American Iron and Steel
- Signage
- Readiness to Proceed



Operating Agreement

The Operating Agreement was signed in 2012. An amendment to this agreement is needed to reflect changes in references to specific regulations as a result of the new OMB "Super Circular" that went into effect December 26, 2014. EPA and BPH expect to enter into this amendment before September 30, 2016.

Program Pace

In FY 2015 the DWSRF program attained a program pace of 95%. This rate is above the national average of 91.0%. BPH has consistently exceeded the national average. BPH has a solid pipeline of projects to close over the next two years that will strengthen its pace indicator.

There is a new metric introduced with the FY 2016 grant awards. The FY 2016 Grant Award Timeliness Metric was set forth by the Office of Grants and Debarment (OGD). The goals of the metric are to: 1) ensure that timely progress is made on environmental and public health priorities; 2) spread grant workload more across the fiscal year; and 3) meet stakeholder expectations that the agency awards funds as promptly as possible. EPA's goal is the exercise best efforts to have fifty percent of FY 2016 non-competitive grant actions completed by the end of the third quarter, June 30th.

Concerns have been voiced by the state, that awarding the Capitalization Grants by June 30th of each year will result in a 3.5% decrease in their PACE indicator. Awarding the grant at the end of the state fiscal year will inflate the state's funds available number with little turnaround time to get loans closed and funds out the door, thereby affecting the cumulative Pace number.

Resiliency Indicator

Beginning in FY2016, EPA initiated a new Program Indicator Measure. EPA is interested in State SRF Programs that provide incentives to facilities to incorporate potential climate change impacts or strategies for building resilience to extreme events in new or revised facility plans. Extreme events may include intense precipitation and flood, increasing temperatures and drought, sea level rise, increasing intensity of coastal storms, and storm surge.

BPH considers all costs associated with addressing potential climate change impacts to be eligible as part of a DWTRF loan. However, BPH does not offer a reduced interest rate or higher priority ranking points to applicants whose projects include these elements.

Unliquidated Obligations

The reduction of Unliquidated Obligation (ULO) balances is a high priority for the DWSRF program. BPH assures EPA regional staff that all legacy grants will be expended by September 30, 2016 and all assistance awards beginning with 2014 will be utilized within the required time frame, per EPA's April 14, 2014 DWSRF Unliquidated Obligations Reduction Strategy. This includes both construction and set-aside funds.

The ULO balance for projects as of 5/31/2016 was \$0 or 0% (Nat'l Avg. 3.4%) and \$1,991,028 for set-asides or 4.7% (Nat'l Avg. 8.1%). WV BPH is applying for part of the total available on the 4% set-aside. They are also utilizing close to half of the 15% set-aside for in-kind services, which have been extremely beneficial to the state. Set-aside funds are being drawn regularly and expect to be expended within the target timeframe of the current draft strategy.



Drinking Water Project Benefits Reporting (PBR)

As a part of the annual review process, EPA staff reviewed with BPH the PBR Quality Assurance report released by EPA HQ. Data listed on the report was addressed by BPH. All projects not marked as complete were found to be accurately left unmarked. The state staff regularly draws a similar quality assurance report to ensure completeness of PBR data.

Public Health Benefits

The DWTRF program provides financial assistance to improve and maintain public health throughout the State. The projects financed have been vital in the reduction of drinking water quality related public health concerns throughout the State.

During FY 2015, the DWTRF program financed 4 projects totaling approximately \$10 million thus ensuring safe drinking water for at least 8,524 West Virginian's. All of the projects contributed to the joint State/EPA mission of improving the quality of drinking water to better protect the public health.

Small Systems and Disadvantaged Funding

BPH has continued success in meeting the needs of small drinking water systems, and has exceeded the Safe Drinking Water Act (SDWA) requirement to provide a minimum of 15% of available funding to small systems (population under 10,001). To date BPH has provided \$147 million to small drinking water systems.

As of June 30, 2015, BPH provided disadvantaged assistance to 83 water systems. This amount includes all types of assistance provided to systems identified as disadvantaged by the State, including principal forgiveness, extended loan terms, and lower interest rates.

Sustainability, Resiliency and Climate Change

During last year's annual review, EPA held a detailed discussion with BPH staff following the 14 page "SRF Sustainability Conversation Guide" dated August 13, 2014. Topics included asset management, planning, alternative analysis, rate structures, green infrastructure, decentralized wastewater systems, green space, energy efficiency, energy audits, renewable energy, water efficiency, water audits, water reuse, consolidations and partnerships, climate change, climate-related planning, climate resilience, security, emergencies, and recovering from extreme weather events.

During this year's annual review, EPA and BPH furthered the discussion by focusing on the Sustainability tab from EPA's SRF Annual Review Checklist. BPH explained that:

- BPH requires all loan recipients to implement an asset management program as a condition of funding, encouraging loan recipients to do annual planning on facilities and finances.
- The State has continued to complete energy efficiency reviews, where an inventory review is done to verify cost efficiency.
- BPH's Capacity Development staff also recommends energy audits during the capacity development assessment phase.
- There are currently two projects with green infrastructure elements to reduce water loss on the FY 16 project priority list.



BPH's Utilization of EPA's Enforcement Targeting Tool (ETT)

BPH's Capacity Development staff continues to participate on quarterly conference calls with EPA to discuss the non-compliant systems report generated out of ETT. The Capacity Development and Enforcement staff review the report to identify non-compliant systems. Six systems are chosen from the list to work on reducing their ETT score. If the system is a good fit for SRF funding, management and staff will work with the system to apply for SRF financing. If a system receives a SRF loan, the staff will work with the system to ensure it is fully compliant by substantial completion of the SRF project. As a result of this process, the number of non-compliant systems have been greatly reduced. Cumulatively, \$63,893,694 in financing went to assisting non-compliant systems to achieve compliance.

Drinking Water Set-Aside Activities

The chart below shows the progress that BPH has reported in expending funds on a cumulative basis for each set-aside category.

SET-ASIDE UTILIZATION FOR ALL GRANTS CUMULATIVE AS OF JUNE 30, 2015					
	Administration	Technical Assistance	Program Management	Local Assistance	Total
Cumulative Awarded (*)	\$4,898,759	\$3,042,621	\$13,069,084	\$19,768,280	\$40,778,744
Cumulative Expended (*)	\$4,773,549	\$2,809,083	\$12,380,299	\$18,718,528	\$38,681,459
Percent Expended	97.4%	92.3%	94.7%	94.7%	94.9%
Percent Expended National Average	92.1%	87.4%	89.1%	83.1%	88.0%

(*) Source: DWNIMS through June 30, 2015

EPA is working with BPH to ensure all set-asides associated with Legacy ULOs, are expended prior to the September 30, 2016 deadline.

Cash Transaction Review

A stratified sample selection from the Office of the Chief Financial Officer (OCFO) was tested totaling \$9,858.51, from Grant No. FS_993900-15, dated 9/28/2015. The selected cash draw was properly made for eligible DWSRF expenditures and were properly recorded in the BPH's accounting records. No costs were questioned and there were no improper payments.

In addition, EPA "walked-through" a loan disbursement transaction totaling \$3,640.00. This disbursement was made to reimburse administrative expenses incurred on the Page-Kinkaid PSD Water System Rehabilitation Project. EPA found that the disbursement was made in accordance with the established controls and procedures identified in the narrative description previously submitted to EPA. The charges were eligible and properly recorded in the official WV BPH state accounting records. No Federal funds were used to fund this disbursement.



**Cash Transaction Testing
EPA OCFO Draw Selection**

Grant Number	Date	Amount
FS-993900-15	9/28/2015	\$9,858.51
Total		\$9,858.51

Financial Health of the Fund

The financial health of the DWSRF program is good. All municipal loans are secured by system revenues and debt service reserves. Due to the absence of long-term debt, all funds deposited into the DWTRF are available to provide additional financial assistance to improve the State's drinking water. There were no municipal loan defaults or delinquencies with respect to deposits of loan revenues or reserves reported in the FY 2015 audit.

The DWTRF fund account has a strong cash flow. Financial management is sound; internal controls are in place; annual independent audits are performed; all funds are invested prudently; the Infrastructure Council and Public Service Commission perform detailed initial credit analysis and financial capability assessments on all municipal borrowers; BPH provides loan monitoring of borrowers during construction and loan repayments throughout the loan periods; and, there is no debt.

As of June 30, 2015, net assets were \$142,616,004. That is 5.48% over FY 2014 net assets of \$135,201,185. Included in this amount is \$38,331,119 in cumulative loan principal and interest repayments and \$3,000,718 in cumulative investment earnings.

Return on Equity (ROE) is a measure of the growth of capital within the DWTRF. The ROE for the DWTRF remained at 0.54% in FY 2015. The ROE rate is adequate considering BPH's DWTRF program generally offers loans to its borrowers with interest rates averaging less than one percent and interest rates on invested funds are near zero percent for the liquidity accounts.

BPH periodically performs long-term cash flow modeling and long-term planning of the DWTRF. The projections have not been updated for over three years. EPA has agreed to assist BPH to update its modeled projections.

Based upon a review of the audited financial statements, annual report, and the financial management policies and procedures, EPA concludes that BPH continues to manage the DWTRF program in a manner that ensures a perpetual source of financing of drinking water quality infrastructure projects.

Audits of the Fund

On October 27, 2015, BPH's independent certified public accountants (CPAs) issued the Water Development Authority (WDA) DWSRF's FY2015 audited financial statements. The CPAs expressed an unmodified opinion on these financial statements, indicating that they are fairly presented and conform to generally accepted accounting principles (GAAP) as required. The audit report also included a report on compliance for a Federal program, and a report on internal control over compliance when using the program specific audit option to satisfy Office of Management and Budget (OMB) Circular A-133 requirements. The A-133 reports identified no deficiencies in internal controls of the DWSRF. In addition, the A-133 report did not include any findings or recommendations pertaining to noncompliance



with Federal requirements.

The FY 2015 WV State-wide Single Audit (SAA) was issued on May 9, 2016. The DWSRF (CFDA No. 66.468) was not included as a major program, and there were no findings or questioned costs.

Prior Year Action Items

There were no action items for the DWTRF program as a result of the FY 2014 annual review.

The attached annual review checklist is an integral part of this PER. Should you have any questions, please contact Lea Ruiz at 215-814-5496 or me at 215-814-2162.

Sincerely,



Robert F. Chominski, Deputy Associate Director
Office of Infrastructure and Assistance

w/Enclosures

cc: Robert DeCrease, P.E.
Benjamin J. Savage, P.E.



